



*An Energy-Efficiency Workshop and Exposition*  
*Orlando, Florida*

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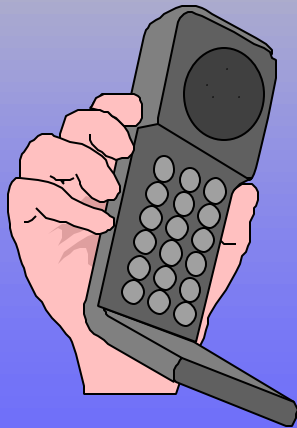
# ***Successful Energy Development & Privatization thru Enhanced-Use Leasing***

***Bob Eidson  
Federal Business Director  
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*An Energy-Efficiency Workshop and Exposition*  
*Orlando, Florida*

*Please be courteous to our speakers*



*Turn off all cell phones  
and  
Set pagers to vibrate*



# Energy Facilities & Services thru Enhanced-Use Leasing

## ***Thru an Enhanced-Use Leasing Energy Approach Agencies Can***

- Obtain private sector financing for facilities and infrastructure improvements.
- Benefit from the efficiencies of state-of-the-art energy facilities.
- Privatize energy operations and maintenance.
- Generate income from energy sales to other Federal and/or non-Federal customers.
- Reduce operational costs and avoid millions in capital appropriations.
- Increase security and customer service thru back-up energy systems.
- Reduce energy consumption in accordance with Exec Order 13123.



# Energy Facilities & Services thru Enhanced-Use Leasing

*What Agencies have an Enhanced-Use  
Leasing Authority?*

- Department of Veterans Affairs
- Department of Defense
- NASA





# Energy Facilities & Services thru Enhanced-Use Leasing

The Department of Veterans Affairs  
38 USC 8161 et seq.  
Asset Enterprise Development Office





# Energy Facilities & Services thru Enhanced-Use Leasing

## ***How Does It Work?***

- Provides a means to obtain services, upgrades and facilities.
- Long-term lease enables amortization of capital improvements.
- Converts underutilized property into a marketable use that enhances VA's mission.
- Lessee provides in-kind benefits and/or revenue as consideration.
- Marketability of property and leasehold structure enable favorable financing mechanisms.
- Energy plant can sell to 3<sup>rd</sup> party energy users.
- Ownership and financing structure complies with Federal budgetary policies/law.



# Energy Facilities & Services thru Enhanced-Use Leasing

## ***The Process***

- VA solicited interest and proposals through an industry forum and a national RFP process.
- Proposers made oral presentations – explained proposals, and addressed RFP technical and cost criteria.
- Selection based on weighting and ranking of technical and cost data.
- VA used 3<sup>rd</sup> party consultant to develop baselines and assist VA in price negotiations.
- Selected developer provides “due diligence” and enters into MOU with VA for further development of project and transaction documents.



# Energy Facilities & Services thru Enhanced-Use Leasing

## ***VA's RFP Energy and Project Goals***

- Reduce VA Medical Center's operational costs.
- Obtain benefits of new energy plant at no capital cost to VA.
- Reduce energy consumption per Executive Order 13123.
- Secure a reliable source of energy - with no long-term commitment - no penalties - maximum flexibility for future.
- Improve customer service through energy upgrades.
- Privatize operations.
- Reinvest savings into better care for veterans.
- Maximize the use of and return on our underutilized capital assets.



# Energy Facilities & Services thru Enhanced-Use Leasing

## ***Project Financing***

- Traditional Developer Financing --
  - Lease property to Developer who secures financing.
  - Developer owns and operates improvements.
  - Generally bank financing.
- Conduit Financing --
  - Local development authority obtains financing and benefits flow to ground lessor.



# Energy Facilities & Services thru Enhanced-Use Leasing

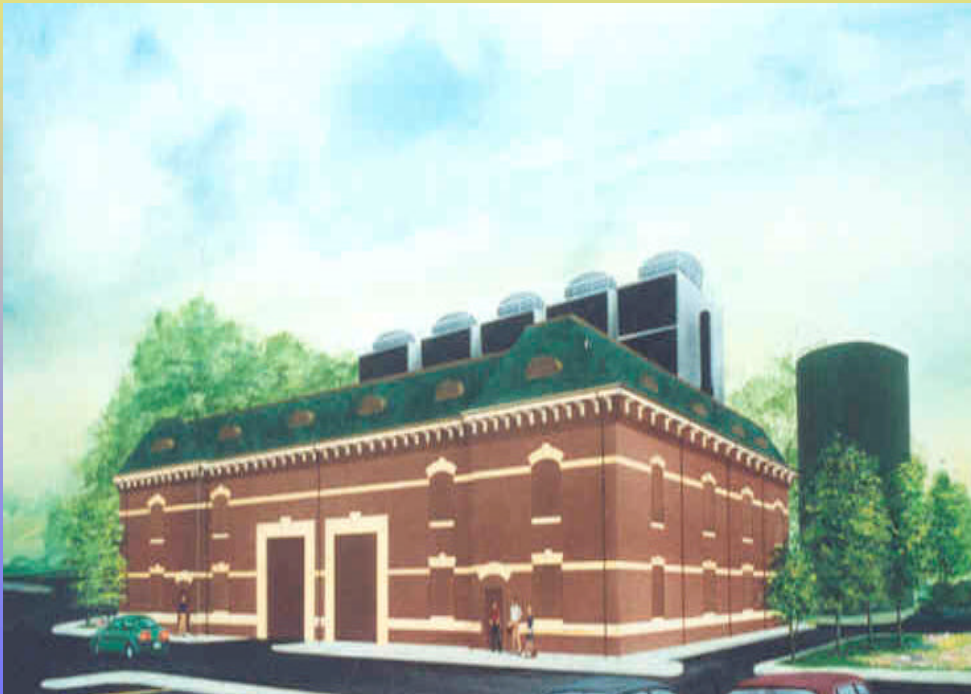
## ***Project Financing (continued)***

- Conduit Financing
  - Capital Markets are often available.
  - Borrowing based on project revenue.
  - Transaction includes both internal and external credit enhancement.
  - In certain instances use of bond insurance will negate need for rating agency (e.g., S&P, Moody's) participation.



# Mt. Home Energy Center

## VA Medical Center, Mountain Home, TN



August 17-20, 2003

[www.energy2003.ee.doe.gov](http://www.energy2003.ee.doe.gov)

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# Energy Facilities & Services thru Enhanced-Use Leasing

## *What Did VA Contribute to the Transaction?*

- 35-year leasehold interest in 2 acres of land and facilities valued at \$300,000.
- A commitment to purchase energy from the Developer/Operator contingent upon annual appropriations and continued operation of the VAMC.





# Energy Facilities & Services thru Enhanced-Use Leasing

## ***What Did VA Receive from the Developer?***

- Reduced cost energy and services, and a share in income from non-VA energy sales.
- Millions of dollars in capital cost avoidance.
- Reduction of 20%-25% in energy usage/compliance with Executive Order 13123.
- Reliable source of energy, with 100% back-up.
- Energy upgrades - at no capital cost - to improve facility environments for all VA customers.
- Privatization of energy operations.
- Recipient of VP's *Hammer Award* and *Energy User News'* "Best Medical Facility" Award for 2002.



# Energy Facilities & Services thru Enhanced-Use Leasing

## ***What Did VA Receive from the Developer (cont'd)?***

- Operational savings of over \$16 million (NPV) as compared with baseline.
- Over \$10 million (NPV) in capital cost avoidance.
- Over \$3 million in energy-related improvements to facilities.
- More reliable source of energy, with 100% back-up.
- Privatization of energy operations.
- 90% reduction in HVAC trouble calls.



# Energy Facilities & Services thru Enhanced-Use Leasing

## *Other VA Energy Developments Using the Same Development and Financing Structure*

- North Chicago Energy Center, VA Medical Center, North Chicago, IL
  - Sells energy to VA, Chicago Medical School and barracks at the Great Lakes Naval Training Center.
- West Side Energy Center, West Side VA Medical Center, Chicago, IL



# Energy Facilities & Services thru Enhanced-Use Leasing

## ***Requirements and Lessons Learned:***

- Development must comply with historic preservation and environmental requirements.
- Development can rely on federal or local building standards.
- No Federal real estate taxes – local taxes may apply.
- Project structure **MUST** provide necessary investor protections and credit enhancements so as to secure financing.
- Third-party energy purchasers enhance financing terms and reduce risk.
- Borrowing is secured on assessment of risk.
- Selection of quality, experienced development team enhances chances of success.



# Energy Facilities & Services thru Enhanced-Use Leasing

## ***Where Does this E-UL Approach Work Best ?***

- On properties with aging or failing energy infrastructure and facilities.
- Where Federal appropriations are not available for major energy facility and infrastructure improvements.
- On DOD properties where Utility Privatization was unsuccessful.
- Where increased security and back-up power systems are a priority.
- Where traditional leasing and long-term commitments are not feasible or appropriate.
- Where there is potential to develop revenue streams through the sale of energy to non-Federal users.



# Energy Facilities & Services thru Enhanced- Use Leasing

## *Questions?*

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